

The Bahamas – European Union ACP Partnership

Annual Report 2003

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1. Executive Summary

The present report starts off with a brief description of the policy agenda of The Bahamas in key areas, summarising the country's policies in areas such as economic growth, social development and poverty alleviation and goes on to provide an update on the political, economic and social situation for the period covered by the report.

Subsequently a review and analysis of co-operation under the 7th and 8th European Development Fund (EDF) are presented scrutinising results and activities in the focal and non-focal areas of co-operation and macroeconomic support under the corresponding National Indicative Programmes (NIPs) and under the Regional Indicative Programmes (RIPs).

Thereafter the other instruments of EU co-operation in The Bahamas are highlighted. They include notably projects funded by the European Investment Bank (EIB) and humanitarian assistance from the Budget of the European Commission.

National Policy Agenda and Update

In recent years the economic policy agenda of The Bahamas has been formulated mainly in the annual budgets of the Government. The policy objectives of the present Government, which took office in May 2002, are focused on managing overall economic development with a view to ensuring sustainable economic growth, fostering investment, competitiveness and promoting growth in the Family Islands, who are lagging behind the archipelago's major centers.

Per capita income continues to rise and is now the third highest in the Western Hemisphere (after the US and Canada). However, access to employment, level of income and consumption, as well as access to social services vary considerably among the 30 inhabited islands of the archipelago. During 2000 a census of population and housing was done, which was followed by a living conditions survey during 2001. The data obtained in the course of these exercises confirm continued disparities among the Islands of The Bahamas in access to incomes, consumption and social services.

Focal Areas of Co-operation

In 2000 and 2001 the Focal Sector of co-operation under the European Development Fund was the improvement of the socio-economic and physical infrastructure in the Family Islands¹. The project that was implemented in the period was Acklins Island Road rehabilitation project, while the Rum Cay Airstrip was put on hold.

The rehabilitation of basic infrastructures initiated with EDF support was accompanied by other initiatives promoted by the Government of The Bahamas (electrification, maintenance of existing infrastructure). The establishment of adequate infrastructures in the Family Islands is considered

¹ The inhabited Islands of the Bahamas, other than the main centers of New Providence (Nassau) and Grand Bahama

an essential element in enabling the development of productive activities and reducing the exodus of the economically active segment of the population.

The Acklins Islands Road project has been completed, while the Rum Cay Airstrip project was put on hold following delays and effects of the events of September 11, 2001 on the economy.

The funds provided under the 7th and 8th European Development Fund - € 8.9 million – have to date been significantly under-utilised, since a balance of € 3.1 million remains uncommitted and will be transferred to the Indicative Programme under the 9th EDF.

Other Instruments

The European Investment Bank (EIB) has under the Lomé Conventions provided support of € 51.600.000 to The Bahamas. Under the 9th EDF the European Investment Bank may provide support to small and medium size enterprises through local financial intermediaries in the form of loans or risk capital from the Investment Facility created by the Cotonou Partnership Agreement.

The Bahamas benefited from support from the budget line of the European Commission's budget for Operational Support, Disaster Preparedness and Humanitarian Operations (ECHO) in the aftermath of Hurricane Floyd that struck the Island in September 1999 amounting to € 177.000.

Programming of the 9th EDF

The 9th European Development Fund, which will fund the activities envisaged in the Cotonou Agreement, will be implemented on the basis of a Country Strategy Paper (CSS) and National Indicative Programme (NIP), elaborated with The Bahamas between April 2000 and November 2002 and signed on 6 February 2003. The CSS/NIP will cover cooperation under the EDF between 2003 and 2007. It identifies capacity building of local government and private sector actors in the "Family Islands" as focal area of cooperation.

For the implementation of these projects, an indicative amount of € 4.5 million has been identified. This amount will be increased by the uncommitted balances remaining under the 7th and 8th European Development Funds. The indicative allocation may change as a result of the assessment of needs and performance in the context of an all-ACP mid-term review of the 9th EDF.

With a view to the above-mentioned review, it is recognised that the implementation of the cooperation programmes under the new CSS/NIP will need to be accelerated in order to avoid a reduction in the allocation granted.

2. The Policy Agenda of The Bahamas

The Bahamas consist of an archipelago of 700 islands and hundreds of cays, situated to the south east of the State of Florida, US. Only about 30 islands are inhabited. About half of the total population of 300,000 has settled on New Providence on which the Capital Nassau is located. The country enjoys a relatively high per capita income¹ derived mainly from tourism and financial services. Petroleum refining and transshipment are also important activities. The Bahamian dollar is pegged to the US currency on a one-to-one parity. There are important differences in welfare between the many Islands of the archipelago.

2.1 National Development Policy

In recent years the economic policy agenda of The Bahamas has been formulated mainly in the annual budgets of the Government. The policy objectives of the present Government, which took office in May 2002, can be summarised as follows:

- i. To continue to manage overall economic development and ensure sustainable economic growth.
- ii. To make existing economic policies harmonious, transparent and fair to all investors, while protecting the legitimate interest of Bahamian investors;
- iii. To put in place the policies, strategies and programmes and ensure that the cost structure of the economy is competitive and employment opportunities are maximised for all Bahamians;
- iv. To ensure the state of readiness and formulate the growth of the economy by making The Bahamas a major e-commerce centre;
- v. To determine medium and long-term strategies and programmes for economic performance to sustain Family Islands development and formulate a National Plan of Action, which is both realistic and flexible and balances the competing claims of the various Family Islands, thereby bringing about equitable growth and development of Family Islands.

The Government is concerned at the fact that income, consumption and access to social services are not evenly distributed among all the many islands of The Bahamas. It is the Government's declared intention to address this problem.

2.2 Macro-economic Programme

The main challenge is to achieve sustainable growth whilst maintaining macro-economic stability in order to induce confidence among the domestic and foreign private sector in the

¹ Per capita income in 2000 was US\$ 16,443 (2000 Census of Population and Housing - Department of Statistics, Nassau)

economy, with a view to stimulating investment. The macroeconomic programme of the Government has thus been guided by the objectives of maintaining low inflation, efficient management of public finances and by promoting of private sector growth and the provision of essential services consistent with increasing the competitiveness of the country. The Bahamas are endeavouring to maintain the necessary revenues to support social and infrastructure development.

Fiscal balance has been a primary objective of the Government. Other objectives included promoting social equity, and maintaining low levels of taxation, but with deficit reduction. The Government was also committed to customs tariff harmonisation in keeping with international trends, and duty rates were reduced from 130 to 29 in the late 1990s. The Bahamas has pegged its currency to the US Dollar. Exchange control restrictions enable the Central Bank to monitor capital investments and to ensure that they are in the interest of The Bahamas.

A challenge that the country faces is pursuing a set of objectives with contradictory implications. It has to maintain the investment climate that makes The Bahamas an attractive location in tourism, financial services, and other services, as well as in other focused industries that could contribute to diversification of the economy in a liberalised trade environment. Trade liberalisation will further reduce the role of export and import duties and thus the revenue base. In order to stimulate private sector activity, the government is desirous to improve access to credit, so that SMEs, including firms owned and managed by Bahamians, can emerge and contribute to the balanced development of the islands of The Bahamas. All of this has to be accomplished with fiscal rectitude and the avoidance of crowding-out effects, which would ensue from excessive Government borrowing in the domestic economy.

2.3 Poverty Reduction

Given the income disparities among the 30 inhabited Islands of The Bahamas, the challenge is to reduce poverty across the country and especially in the Family Islands. The Government thru the Department of Social Services has implemented several programs to assist in this regard.

In 2002 the Department led an initiative to reduce latrine use in the urban areas in Nassau and the family islands, by installing indoor plumbing for those that cannot afford the upgrades. The Department has further established a 'fresh start' program in the 'Farm Road' area of New Providence. The program targets persons between 18-25 years old, and provides them with skills and job training programs. Efforts in this regard are supported by the Bahamas Technical and Vocational Institute, which provides subsidized training programs to citizens.

The Government of The Bahamas also fund's a housing repair program for indigent persons and further funds several major housing programs to provide low-cost housing to the public. To date the demand has far out paced supply and Government has plans to expand activities in this regard. Also of note is the Urban Renewal Programme which was launched in late 2002.

The Statistical Department, with assistance from the Inter-American Development Bank (IDB), is currently engaged in analysing the results of the 2001 Survey of Living Conditions. The results of this exercise should allow the country to target more directly those who have not benefited from the growth that the country has experienced over the last few years. Poverty alleviation is addressed specifically through programmes of public assistance and old age pensions, and a small 'works programme' for unemployed persons.

2.4 Trade Policy

The Bahamas has applied for Membership of the World Trade Organisation (WTO), where it currently enjoys Observer status. The Bahamas is proceeding with accession requirements and expects to submit the memorandum of trade regime in the first quarter of 2004. It is a member of CARICOM but is not a signatory to the Caribbean Single Market and Economy (CSME). The Government participates in the negotiations for the formation of a Free Trade Area of the Americas (FTAA), as well as in the EU – ACP negotiations on Economic Partnership Agreements (EPAs), which started in September 2002. In the interest of addressing these and related issues the Government has established The Bahamas Trade Commission in December 2002 to examine and review The Bahamian Taxation System with particular reference to the impact of increased participation in the mentioned agreements.

2.5 Promotion of Private Sector Development

The Government is trying to maintain and increase the attractiveness of the economy for the inflow of foreign investment, especially in the financial services sector, at the same time as the regulatory environment is improved to deal with concerns raised about money laundering. A special challenge is the stimulation of business activity in the Family Islands.

It is, therefore, encouraging the penetration of foreign firms into certain key sectors – large-scale tourism and financial services. Domestic capital is promoted by the provision of technical assistance, market development assistance and other forms of facilitation through the Bahamas Agricultural and Industrial Corporation, the Bahamas Development Bank, and Guaranteed Loan Schemes through the Private Banks. The sectors targeted have been agriculture, fisheries, tourism, manufacturing, services, and transportation industries. Generally, the Government seeks to improve the infrastructure in disadvantaged areas to allow for private sector growth, especially in the Family Islands.

2.6 Infrastructure Development

Due to the geographic set-up of the Bahamas as an archipelago of hundreds of islands and cays, transportation between the islands, but also on the islands themselves, is a special problem. The small populations on the 30 inhabited islands make it difficult to create economic systems of transportation that operate at a reasonable frequency.

The goal of the Government is to expand the basic infrastructure across the entire country, with special emphasis on reducing disparities with the Family Islands. In addition to the regular services of roads, water, electricity, and telecommunications, the archipelago nature of the country renders harbours, airports and landing strips as critical infrastructure for the nation state.

2.7 National Security and Justice

The challenge is to maintain the integrity of the nation state of The Bahamas, to protect its shores from the persistent problem of illegal immigration and poaching of its fisheries, and to eliminate any use of its extensive coastline in drug-running by international narco-traffickers.

Through the provision of improved equipment for the protective and security services, the Government seeks to minimize illegal immigration and to better police its waters and landing strips.

2.8 Environmental Protection

The Bahamas archipelago is comprised of low-lying islands, some with rich fishery resources in their immediate waters, and many blessed with good beaches. The main challenge faced by the country is the sustainable use of its fragile eco-system, in the face of the need to develop the Family Islands, expand tourism, exploit fisheries and arrest the effects of more frequent hurricanes and episodes of sea-rise.

The Government is committed to pursuing a pattern of development in the Family Islands that is different to what has evolved in New Providence: the emphasis includes more eco-friendly tourism and greater involvement of locals in the transformation process.

3.0 Update on the Political, Economic and Social Situation[To be updated – NAO Office]

3.1 Political and Governance Context

The Bahamas has a parliamentary system of government in which the Governor General is the Head of State, and represents the Queen of England. The Prime Minister is the Head of the Executive and is the leader of the party commanding the largest number of seats in the legislature. Independence was won from Britain in July 1973, ending 325 years of British colonial rule, and the domination of the polity, society and economy by a small elite that controlled it from its very foundation as a colony, based on plantation slavery. Universal adult suffrage was granted only in 1962, which was much later than in any other part of the Commonwealth Caribbean.

National elections are contested at least once every five years. The Progressive Liberal Party that took the country to independence, and was in power for 25 years, was defeated at the polls in

1992, and replaced by the Free National Movement. On 3 May 2002, the PLP returned to power by gaining 29 out of the total 40 parliamentary seats. While there are also other political parties, the PLP and the FNM remain the two dominant parties on the political landscape.

The Government has instituted a process of devolution with the establishment of local government councils, elected by the people in the respective communities, which have been in operation for some six years now. An active independent trade union movement also forms part of the political environment. There is a vigorous press with daily newspapers providing a wide range of views to the general public. The Government owns a radio station but there are several independent radio stations on the main island and in the Family Islands.

The country has scored highly in the management of its affairs by the main independent rating agencies like Moody Investor Services. Banking secrecy rules are very carefully observed. State corporations are required to publish their accounts consistently with good financial practice. The Bahamas cooperates with the United States in the control of drug trafficking within its territorial waters. It has also instituted legislation to protect the country from being used for money laundering.

3.2 Economic Performance

While the commitment to fiscal balance worked in setting the economy on the path to recovery in the 1990s, recent decline in the US economy will impact the Bahamas and, for 2002, economic growth did not exceed 2.0 %. The foreign assets of the Central Bank fell from US \$382m in March 2001 to US \$306 million in September 2001, underlining weakening conditions, even before the events of 11 September 2001.

Domestic economic trends stabilized during 2002, as the economy recovered some ground lost following the September 11th setback in the tourism industry and local mortgage financing continued to uphold domestic housing expenditure in the construction sector. Although the public sector finances recorded a reduction in the comparative deficit for the first half of FY 2001/2002, financing requirements were still elevated over the calendar year, owing to supplementary needs arising during the second half of the preceding fiscal year when revenue fell short of projections.

The fiscal regime in The Bahamas is founded on indirect taxes. Import and export duties have regularly constituted approximately 55 to 60 percent since the late 1990s. This will pose a problem in the light of forthcoming trade liberalisation requirements deriving from World Trade Organisation, the Economic Partnership Agreements, Free Trade Areas of the Americas and Caribbean Single Market and Economy.

According to the 2001 IMF Article IV Consultations, tourism, financial services, construction and shipping have led in a partial economic recovery. The Bahamas undertook considerable refurbishment of its tourism plant in the mid 1990s and was able to improve room rates for its hotels and to benefit from expanded demand from a booming US economy in the late 1990s. To date, activity in both tourism and foreign investment have remained subdued in comparison to

2000 levels, given the pervading uncertainty and caution in the global climate for travel and investments.

Employment in the Financial Services Sector has remained stable, with 410 institutions providing 4000 jobs to Bahamians, and contributing US \$350m to the economy. Although the number of 'brass plate' banks have fallen, as a result of more exacting regulatory requirements. Also noteworthy that in this sector, although money supply growth trailed credit expansion, sizeable inflows associated with public sector foreign currency borrowing provided a significant boost to liquidity, which accommodated some softening in average interest rates,

The Government has to encourage the formation of domestic capital and ensure that domestic entrepreneurs develop the level of competitiveness by which they can survive without protection. There are a few large domestic firms involved in distribution, and in agency arrangements for foreign suppliers. There is a dominant foreign presence in the key growth sectors of the economy – tourism and financial services.

The Bahamas, like the rest of the international economy, was severely tested by the events of September 2001. Tourism suffered in particular. In a sector that contributes significantly to the GDP, employment, and Government Revenue, the effects of the massive decline had immediate national impact. To add to the country's woes, hurricane Michelle caused considerable devastation in November 2001 with US\$ 120m worth of damage: demonstrating that while it is a high-income country, it figures prominently on the vulnerability index.

The sequel to the terrorist attack is that offshore financial locations like The Bahamas have come under even greater scrutiny, and the uncertainty in this industry led to the departure of a few offshore banking operations. In this regard, The Bahamas Government has also tabled a Terrorism Act, to address the possibility of funds deposited in The Bahamas being used to support international terrorism. The Terrorism Act is expected to become law in 2003.

In compliance with recommendations of the Financial Action Task Force (FATF), The Bahamas has implemented a new regulatory framework with respect to the provision of international services. A number of new and enhanced statutes, which seek to improve the country's anti-money laundering regime, were enacted in 2000. The Financial Intelligence Unit was established with responsibility for receiving and analysing reports of actual or suspected money laundering. enforcing various anti-money laundering. The enabling environment is being created for e-business with concern for addressing the issues raised in the FATF.

3.3 Trade Relations

The Bahamas has applied for Membership of the World Trade Organisation (WTO), where it currently enjoys Observer status. It is a member of CARICOM but is not a signatory to the Caribbean Single Market and Economy. The Government participates in the negotiations for the formation of a Free Trade Area of the Americas (FTAA), as well as in the EU – ACP negotiations on Economic Partnership Agreements (EPAs), which started in September 2002.

The Government is sensitive to the fact that the thrust of the international and regional trade agreements runs counter to many aspects of its fiscal regime.

In 2001 total exports of The Bahamas were 952 M €, while imports were 3 543 M€, implying a negative trade balance of 2 591 M€. In the same year the EU was the destination of 44% of Bahamas' goods exports, followed by the United States with 35%. The Bahamas obtained 20% of its goods imports from the EU and 36% from the US².

Principal Exports to the EU in 2002 were undenaturated ethyl alcohol: 56%; and ships and boats: 30% and fish products: 6%. Principal Imports from the EU were ships, boats: 78% and aircraft: 6%. The EU is an increasingly important market for the export of fish and fish products, an area which experienced fast growth in the 1990s.

On 5th July 2002 The Bahamas raised a BSE related import restrictions on products of animal origin from the European Union. The Bahamas cited the prevalence of classical swine fever and foot and mouth disease as the reason for the import restriction. The restriction was maintained in The Bahamas sometime longer than other ACP members. The European Commission raised concerns that the import ban and failure to conduct 'risk analysis' contravened the terms of the 2000 Cotonou Agreement and ignored scientific evidence and recommendations provided by the World Organisation for Animal Health (OIE) and the World Health Organisation (WHO). After several meetings in this regard, The Bahamas' Ministry of Agriculture removed the import restrictions on pork and pork by-products and milk and dairy products including cheeses.

3.4 Social Development

The Bahamas ranks at 41 in the United Nations Human Development Index¹ and its per capita income was US\$ 16,443³ in 2000. The increase in per capita income in 2000 and 2001, and the good ranking on the UN the development index do not reveal, however, that access to employment, level of income and consumption, as well as access to social services vary considerably among the 30 inhabited islands of the archipelago.

During 2000 a census of population and housing was done, which was followed by a living conditions survey in during 2001. The census report was made public in April 2002, while the results of the survey remain to be published.

The data obtained in the course of these exercises give important insights not only on developments in population, occupation and housing, but also on the disparities among the Islands of The Bahamas in access to incomes, consumption and social services.

For example unemployment in the country as a whole had gone down, but remained higher in the Family Islands, where participation of women in the labour force is generally lower than in New Providence and Grand Bahama.

² IMF 2001 data in COMEXT

¹ Human Development Report 2002

³ Report of the 2000 Census of Population and Housing (Department of Statistics, Nassau, April 2002)

Per capita income in the capital Island of New Providence was US\$ 17.355⁴, well above the national average of US\$ 16.443. Income on the second largest Island, Grand Bahama was slightly higher as well. As for the Family Islands, per capita income was revealed to be quite diverse: two rather small islands are above the national average (because of the high percentage of retired US and European citizens living there), while the rest is below, the lowest average being US \$ 7.087. The national household income average stands at US\$ 40.170. New Providence reaches US\$ 43.416 and Grand Bahama 38.698. In the Family Islands, income levels are significantly below both figures and go down as far as US\$ 13.180.

Preliminary results of Living Conditions Survey suggest that per capita and household consumption in the Family Islands are below the national average and in any case below those of the two main islands. Regional differences were also confirmed for access to education, access to health, transportation and access to television and computers/internet.

The main challenge of social development is to expand the services available to the population with equitable access across the islands of The Bahamas and to contain the spread of HIV/AIDS and drug addiction.

UNAIDS has described the HIV/AIDS epidemic in The Bahamas as a mature generalized heterosexual epidemic, affecting 4% of the population between 15 and 49 years of age. The Country currently has one of the highest per capita prevalence of the disease in the hemisphere and has committed significant resources to strengthen HIV/AIDS surveillance, expanded education and prevention activities, trained laboratory and participated in research activities to promote the establishment of a regional HIV/AIDS training and resource centre for the Caribbean. To date the \$5 million per annum spent on HIV/AIDS has brought some positive results, but major challenges remain, particularly in the areas of manpower and technical and financial resources, if the program is to be sustained.

Alcoholism and cocaine addiction are noted as chronic problems. The number of new cases of cocaine abusers at community counselling and assessment centres was 155 in 1999 and in 2001 there were 202⁵. Government is continuing its support of the rehabilitation centres, and funding of educational campaigns.

The Government is committed to expanding the human resource base of the country through an expansion in the provision of education at all levels. The country has attained universal secondary education and seeks, through the College of The Bahamas, The Bahamas Hospitality Training School and The Bahamas Technical and Vocational Institute, to increase the provision of education and training opportunities for all Bahamians. The Government has instituted a scholarship loan programme to allow poorer students to access to tertiary level education.

⁴ All income figures are based on 2000 Census of Population and Housing (Department of Statistics, April 2002) for inter-island comparison purposes

⁵ These figures include abusers of cocaine along with any number of other drugs.

3.5 Crime and Drugs

Given its massive coastline, and with some 700 islands, and its close proximity to the United States and its convenient location vis-à-vis the North Atlantic, The Bahamas has been a major trans-shipment location for drug traffickers, targeting the major markets of North America and Europe. Citizens of the country have been implicated in the trade, evidenced in an increase in the number of arrests, incidence of drug abuse and in drug related criminal activity.

The Government of The Bahamas has maintained a working relationship with the Government of the United States through a bilateral narcotics control agreement. Legislation has been upgraded to eliminate money laundering in The Bahamas and the internal narcotics control machinery has been strengthened to fight the internal trade in narcotics. The Government has also established treatment programmes and has mounted campaigns to arrest the spread of drug use in the country.

3.6 Immigration

Illegal immigration remains a major challenge for The Bahamas and it continues to strain limited resources. In the period from 1998 to 2002 more than 21,000 predominately Haitian immigrants have been repatriated at a cost of \$5, 197, 061.70. An annual breakdown indicates the in the year 2000, 4,087 immigrants were repatriated at a cost of US\$ 1, 374,155.60. 2001 statistics indicate 6,298 persons repatriated at a cost of US\$ 1, 027,930.70. In 2002 5,462 persons were repatriated at a cost of US\$ 1, 235, 271.71. The Bahamas continues to seek resolution to its immigration problem through bi-lateral initiatives with Haiti, as well as cooperation within Caribbean Community and the Organisation of American States

4. Overview of past and ongoing co-operation

4.1 National Indicative Programmes

The National Indicative Programmes for the 7th and 8th EDF were signed on 13th of March 1991 and 24th of February 1997, respectively. In the 7th EDF the entire indicative programme (4.4 million €) was allocated to the improvement of socio-economic infrastructure in the Family Islands. In the 8th EDF it was agreed to concentrate the whole NIP (4.5 million €) on the **development of infrastructures in the Family Islands.**

The Country Support Strategy and National Indicative Programme (CSS/NIP) for the 9th EDF was signed on 6 February 2003. The strategy agreed in the CSS/NIP seeks to deliver a **capacity building programme** in the “Family Islands” with the fundamental purpose of the programme being to strengthen local stakeholders, be they government, private sector or civil society organisations, to render SMEs more competitive and to ensure better maintenance of local infrastructure.

4.1.1 Assessment of achievements under the focal sector under the 9th EDF CSS/NIP

The assessment of achievements in the focal sector during 2003 can be seen in the intervention framework in Annex I and summarised as follows: [...].

4.1.2 Assessment of achievements under the focal sectors under previous EDF

In 2003 projects relating to the above-mentioned areas of co-operation were implemented:

Improvement of socio-economic infrastructure in the Family Islands

- Rum Cay Airstrip (7th EDF)
- Acklins Island Road Rehabilitation (8th EDF completed in 2001)

a) Results

The rehabilitation of basic infrastructures initiated with EDF support was accompanied by other initiatives promoted by the Government of The Bahamas (electrification, maintenance of existing infrastructure). The establishment of adequate infrastructures in the Family Islands is considered an essential element in enabling the development of productive activities and reducing the exodus of the economically active segment of the population. This approach will allow having a more balanced economic development throughout the islands of the country.

b) Activities

Rum Cay Airstrip (Project 7 ACP BM 09-010)

The rehabilitation of the Rum Cay airstrip is one of the projects identified by the Government of the Bahamas aimed at facilitating air transportation in the archipelago in order to promote a more balanced and equitable distribution of economic growth.

The financing agreement (FA) was signed on 1 January 1998. In the FA a second airstrip in Moores Island was also considered for rehabilitation, but because of the urgency of the works the Government decided to implement the reconstruction of this second airstrip utilizing their own funds. Consequently, the initial FA was modified and through two subsequent exchanges of letters the duration of the agreement has been extended up to December 2004. The estimate of the total cost of the works is 2 million € of which 1.076 million are financed by the 7th EDF. In November 2000 a tender was launched in order to select the Contractor. The offers were presented by the bidders on 29th of November 2000. The approval of the tender evaluation suffered several delays and no contract was awarded by September 2001.

The event of 11 September 2001 had a significantly negative impact on the Bahamian economy. The Government decided to put the project on hold consequently the tender was cancelled. A new tender was launched in September 2002 and the works contract was awarded in December 2002. During 2003 the works have been successfully implemented and the provisional acceptance was granted in November 2003 (completion certificate). The final account will be established in January 2004.

4.2 Utilisation of resources for non-State actors

While the involvement of the private sector and civil society in the preparation and monitoring of the CSS/NIP is valued, concerns remain regarding the modality for the provision of NIP resources to non-state actors. The concerns relate to the large number of NGOs, which exist across varying interests and their lack of capacity. These issues raise further questions about the eligibility criteria for NGOs to benefit from NIP resources, the parties which will sign ensuing Financing Agreements and be held accountable for the proper utilisation of the resources and whether the performance of the non-state sector will have an impact on the overall performance of the NIP, thereby affecting The Bahamas' allocations.

4.3 Other Instruments

4.3.1 European Investment Bank

In conformity with Article 18 of the Bank's Statute, the European Investment Bank (EIB) contributes to European development co-operation policy outside the European Union. The Union is continuously building up co-operation or association agreements with countries in different regions in the world. Such agreements lay down the conditions for EIB activities in the third countries concerned. Under the successive Lomé Conventions, the EIB has provided loans worth € 51.6000.000 to the Bahamas. An overview of the EIB's activities is given in Annex [...].

Under the 9th EDF the European Investment Bank may provide support to small and medium size enterprises through local financial intermediaries in the form of loans or risk capital from the Investment Facility created by the Cotonou Partnership Agreement.

In addition to this the Bank will continue to consider direct financing to larger projects, private or public, considered to be financially viable and of economic priority to The Bahamas. The exact size, timing and sectors for such interventions will be determined when and where the need arises.

4.3.2 Cooperation financed by European Commission Budget Lines

4.4 Caribbean Regional Indicative Programme (CRIP)

As a member of CARIFORUM, The Bahamas is benefiting from the Caribbean Regional Indicative Programme (CRIP).

Under the 8th EDF CRIP, € 2M has been earmarked for the construction of the Eugene Dupuch Law School in Nassau, Bahamas.

The aim of the construction of the new Law School was to lessen the pressure on the two existing law schools in the Region, namely the Norman Manley Law School in Jamaica and the Hugh Wooding Law School in Trinidad & Tobago. Students from the Bahamas, Belize, British Virgin Islands, Bermuda and Turks & Caicos are expected to benefit from the intervention. The Commission had agreed in principle to this proposal subject to a primary commitment of fund before the end of 1999. The total cost of the project was estimated equal to about 5 million BH\$.

The Government of the Bahamas had already financed the architectural design and all the preliminary studies and it has committed itself to come up with all the counterpart funds needed to complete the project construction works, the equipping and, furnishing. A technical assistance support was foreseen in 1999 to prepare the works tender dossier in accordance with EDF procedures. However, the project experienced long delays due to the absence of decision from GOB concerning the amount of its contributions. Because of the September 11 attack and because of the subsequent economical difficulties the GoB decided in October 2001 to put the project on hold.

5. Programming Perspectives for the following years

The 2003 – 2007 Country Support Strategy and National Indicative Programme (CSS/NIP) for the cooperation between The Bahamas and the EU under 9th EDF was signed in Nassau on 6 February 2003.

The strategy agreed in the CSS/NIP seeks to deliver a capacity building programme in the Family Islands with the fundamental purpose of the programme being to strengthen local stakeholders, be they government, private sector or civil society organisations, to render SMEs more competitive and to ensure better maintenance of local infrastructure.

A feasibility study should be contracted in the second half of 2004 to help with the identification of the key areas of intervention, project set-up and implementation modalities. The timetables for the programming of the focal sector programme, as well as timetable for commitments and disbursements of funds are at Annex.

6. Conclusions

The MTR and the Joint Annual Report 2003 process has taken place along the agreed lines, in accordance with the stipulations in the Cotonou Partnership Agreement.

The Medium Term Review conclusions propose:

- **to maintain the Strategy for Bahamas as contained in the CSP and NIP;**
- **to maintain the financial allocations under the A and B envelopes.**

- *Key results of the consultation with Non-State Actors and how they have been incorporated in the implementation of cooperation and programming perspectives;*

No funds were set aside specifically for non-state actors from the 9th EDF allocation and no information has been provided by the Bahamian authorities on involvement of non-state actors.

- *Whether a change of strategy was proposed and agreed, or whether the choice of the focal sectors was confirmed;*

There are no changes foreseen on the agreed and planned sector support strategy, and no revision of the country allocation.

- *Position taken on the integration of the new EC/EU initiatives and commitments;*

As regards new EC/EU policy initiatives and commitments affecting third countries, Trade and Development, including preparations for trade negotiations and trade liberalization, is important to The Bahamas.

- *Overall assessment of the country in terms of financial performance, sectoral performance and 'special considerations' such as progress in institutional reforms and towards poverty reduction;*

Overall the Commission considers The Bahamas a very low performer. No new global commitments and no results were listed in 2003.

Financial Performance

On the basis of commitments made by the end of 2003 on a ten-year period, The Bahamas would need 29.79 years to complete current commitments, 10.76 years to complete assigned funds and 10.23 years to complete payments.

Sectoral Performance

The initial intervention framework has not been updated and, despite several requests, no output or outcome sector-wide indicators are available. As no action on the implementation of the 9th EDF has been undertaken, sectoral performance is considered **inadequate**.

- *Community position/decision on the revision of the country allocation;*

The Commission had the intention, in view of the poor performance, as far as the 9th EDF allocation is concerned, to reduce the overall allocation by EUR 3.5 million. Due to the substantial damage The Bahamas suffered following the 2004 hurricane, the Commission would conclude that at this time there is no need for a change in the strategy or in its financial allocation. However, a reduction in the allocation could be reconsidered in the End of Term Review if no improvement in the overall performance occurs.

- *Possible differences in opinion between NAO and Commission which came out during the review process (if applicable);*
- *Key perspectives for the future*

Commission comment:

The agreed and planned support package for Bahamian capacity building should remain unchanged. There are no changes foreseen on the agreed and planned sector support strategy, and no revision of the country allocation. Support to The Bahamas should continue to focus on development of the Family Islands.

Annexes to the Joint Annual Report

Annex I – Intervention Framework Focal Sector Programme

Results	Performance indicators	Actual 2001	Actual 2002	Actual 2003	Target 2004	Target 2005	Target 2006	Sources of verification	
Overall objective To reduce regional socio-economic imbalances in The Bahamas	<ul style="list-style-type: none"> Unemployment rate Per capita income in the identified Family Islands(all islands) New founded SME created in all Family Islands 	Eluthera: \$ 6582 Mayaguana: \$4816 Andros: \$ 5266 Cat Island: \$5507	N/A	N/A	N/A	?	?	<ul style="list-style-type: none"> Department of Statistics National Accounts Labour Force Survey 	
Project purpose Improving local capacities for the management of economic and infrastructure Development in the Family Islands (provide copy of the act – job training - light manufacturing- (planning and implementation) Courses in book keeping/management	<ul style="list-style-type: none"> 	N/A	Annual 4-5 day Workshop in all local government jurisdictions and training of 397 elected officials.	Annual Workshop	Annual Workshop	Maintenance of the workshop and expansion to include basic project management and use of information technology.		<ul style="list-style-type: none"> Ministry of Trade and Industry Ministry of Public Works Local Government Councils Ministry of Finance 	
Results Capacity in local Government, including health services, and civil society organisations strengthened to plan and implement programmes	<ul style="list-style-type: none"> Number of local Government staff trained in legal framework, which takes the form of detailed review and discussion of the Local Government Act, financial administration, and the Central Government and its agencies (How they function etc.) Number of health officials trained Number of representatives of civil society organisations trained Number of new jobs created in the private sector 	?	?	?	?	?	?	<ul style="list-style-type: none"> Ministry of Public Works, Ministry of Trade and Industry and Local Councils Project Monitoring Unit (PMU) Ministry of Health 	
SME sector is strengthened	<ul style="list-style-type: none"> Support to SME sector strengthened 	Government passed Family Island Development Act – Allowing Duty-Free Entry of all Building Material and Machinery for Business	Bahamas Development Bank Loaned B\$4.8 million to Family Island business development. primarily	BAIC conducts training seminars in major family islands on how to manage micro-business and provided	Government proposes to Parliament a Business Development Scheme for the Family Islands.	Business Development Scheme starts operation. 100 additional	?	<ul style="list-style-type: none"> Ministry of Trade and Industry and Local Councils BAIC reports on training in Family Islands Bahamas Cooperative League Reports Schools Records on students participating in Training Local Government Records on start-ups in Family Islands Program evaluations 	

		development in Southern Family Islands	fisheries and Tourism Sector	technical support to existing businesses. Government allocates 200 acres of crown land for dev. Of light manufacturers initial phase will house 25 (1500sq ft.) units	Government Proposes the est. of venture capital fund. Expansion of new industrial park - 75 additional units. Micro loan facility established – loans under USD 10,000	units – total of 200 units			
Improved quality of Roads, Sea Defences, Airstrips and other infrastructure on Family Islands	<p>Km of Roads maintained : Paving and verges maintained to accommodate normal traffic during the period of the budget cycle</p> <ul style="list-style-type: none"> • Number of Sea Defences maintained to provide protection against surges during the period of the budget cycle • Number of Airstrip: Maintained to provide safe landing facilities for normal aircraft traffic 	<p>Paved: 35mil</p> <p>Verges: 350</p> <p>SeaDefences:5000ft</p> <p>Airports Resurfaced: 1</p>	<p>Paved: 12miles</p> <p>Verges: 350</p> <p>Seadefences: 4000ft</p> <p>Airports Resurfaced: 1</p>	<p>Paved: 22 miles</p> <p>Verges: 390</p> <p>Sea Defences: 3500</p> <p>Airports Resurfaced: 2</p>	<p>Paved: 45</p> <p>Verges: 430</p> <p>Sea Defences: 1500</p> <p>Airports Resurfaced: 3</p>	<p>Paved: 45</p> <p>Verges: 430</p> <p>Sea defences:</p> <p>Airports Resurfaced: 2</p>	?	<ul style="list-style-type: none"> • Ministry of Transportation and Works • Ministry of Public Works • Ministry of Trade and Industry • 	
New maintenance scheme applied which is consistent with prevailing local weather, coastal and other conditions	<ul style="list-style-type: none"> • Maintenance scheme in place through the establishment of a road fund • Budget spent on road maintenance in the four Islands • km of infrastructure in rehabilitated • % of funding allocated for rehabilitation and repairs • financial management audit and procurement schemes in place • number of staff trained 	?	?	?		New maintenance Scheme approved	?	<ul style="list-style-type: none"> • Ministry of Transportation and Works • Ministry of Public Works • Ministry of Trade and Industry • 	

ANNEX II ACTIVITIES OF THE EIB IN DEVELOPMENT COOPERATION

Currently, the Union has agreements covering more than 130 countries in Africa, the Caribbean, the Pacific, Asia, Latin America, Central and Eastern Europe. The Bank's total operations outside the Union amount to some 10% of the Bank's annual lending.

Since the 1970's the EIB activity in the ACP countries has been laid out in consecutive Lomé Conventions. Under these Conventions the EIB may provide finance from its own resources and from risk capital made available under the Convention. Additionally the Bank manages the European Commission's special loans, which ended with the 7th EDF.

Financing from the Bank's own resources is always in the form of loans. The Bank's own rates are governed by the rates prevailing in the capital markets, by the term of the loan and by the currencies in which the loan is made available. Presently these loans benefit from an interest subsidy from the EDF of up to 4%. When necessary the subsidy is automatically adjusted so that the reference interest rate actually borne by the borrower is neither less than 3% nor more than 6% per annum. The interest subsidy may also be targeted for specific purposes through the establishment of a separate interest subsidy fund.

Risk capital resources are drawn from the EDF and may be provided in the form of direct equity subscriptions on behalf of the European Union (usually combined with a loan from EIB's own resources or quasi-equity assistance) or quasi-equity assistance (mainly as subordinated or conditional loans).

Within the framework of the European Commission's new strategy for private sector development, the Investment Facility (IF) will replace current EIB programmes of risk capital and interest subsidies. It will operate as a revolving fund managed by the EIB. The facility will be used for direct financing of enterprises, indirect financing through local financial intermediaries, support to privatisation, capacity building in the sector and support to revenue generating infrastructure. The IF will only be available after the entry into force of the next EU-ACP Convention, the Cotonou agreement, probably in 2003.

EIB financing: Active projects as of December 2001

Region / Country	Project Name	Status	Convention	Contract number	Amount signed (m)		Date of signature	Amount outstanding (m)		Beginning Repayment
					OR	RC		OR	RC	
Caribbean										
Bahamas	WSC WATER SUPPLY AND SEWERAGE	Disbursed	Lome - 3	12705	8,500,000.00		20/11/86	3,253,141.06		15/5/92
	BEC - FAMILY ISLANDS	Disbursed	Lome - 3	13164	9,100,000.00		8/12/87	1,034,206.71		5/6/90
	BAHAMAS WSC II	Disbursed	Lome - 4	18399	14,000,000.00		19/12/95	15,577,298.56		10/6/01
	BEC (POWER)	Disbursed	Lome - 4	19302	20,000,000.00		20/12/96	19,872,478.70		10/6/00
	Total				51,600,000.00			39,737,125.03		
Total					51,600,000.00			39,737,125.03		

ANNEX III - Timetable 6th, 7th and 8th EDF

Timeline of activities, 2002-2007

Titles	Amounts	Identification	Appraisal	Financing decision
Focal Programme Capacity Building	3.9	January 2004	March - April 2004	July 2004

Indicative commitments timetable, 2002 - 2007

Commitments time table (million €)

The Bahamas	Indicative Total	2002/2	2003/1	2003/2	2004/1	2004/2	2005/1	2005/2	2006/1	2006/2
EDF co-operation programmes										
Capacity Building (1)	3.9						3.9			
Emergency Funds (2)	0.6					0.6				
Grand total allocation	4.5					0.6	3.9			

¹Excluding EIB-administered investment facility and EC budget lines

²Envelope B: indicative amount of up to € 0.6 million

Indicative disbursements timetable, 2002 – 2007

Payments time table (million €)

The Bahamas	Indicative Total	2003/1	2003/2	2004/1	2004/2	2005/1	2005/2	2006/1	2006/2	2007/1
EDF co-operation programmes										
Capacity Building	3.9				0.8	1.0	0.9	0.8	0.4	
Emergency Funds ¹	0.6				0.6					
Grand total allocation	4.5				1.4	1.0	0.9	0.8	0.4	

¹Envelope B

Bahamas Projects - Commitments and Disbursements -Jan 1 - Dec 31 2003

(EURO)									
Project No. Project Title		g or l	Global Commitments	Individual Commitments	Individual Commitments	Available Uncommitted (RAC)	Payments up to	Payments up to	Cr Un
			31-12-2003	31-01-2003	31-12-2003		31-01-2003	31-12-2003	
6th EDF 6 BM 012 TA for the Preparation of CSS - 9TH EDF		g	43,000	42,738	35,484	7,516	35,484		
Total 7th EDF			43,000	42,738	35,484	7,516	0	35,484	
7th EDF 7 BM 009 Reconstruction of Rum Cay & Moores Island Airfield 7 BM 010 Reconstruction of Rum Cay & Moores Island Airfield		g	274,418 799,582	274,000 799,582	142,084 640,661	132,334 158,922	142,084 640,661		
Total 7th EDF			1,074,000	1,073,582	782,744	291,256	0	782,744	
8th EDF									
Total 8th EDF			0	0	0	0	0	0	
9th EDF									
Total 9th EDF			0	0	0	0	0	0	
Total 6th, 7th & 8th EDF (open projects only)			1,117,000	1,116,320	818,228	298,772	0	818,228	

Edited: 2

Annex IV Project Sheets

RUM CAY AIR STRIP

Project Authority: Ministry of Public Works

Contractor: Knowles Construction

Time Frame: **Financing Agreement:** January 1998
Estimated End of Project: December 2004

Accounting Situation: All figures in Euro

Account No	7.ACP.BM.009	7.ACP.BM.010	Total
Decided	274,418	799,582	1,074,000
Contracted	274,418	799,582	1,074,000
Disbursed	142,083	640,660	782,743

SUMMARY OF THE STATUS OF PROGRESS:

Further to the request by Government to assist in carrying out the rehabilitation of Queens Highway on Long Island, it was proposed that a 7th NIP allocation (€ 0.8M) together with balances from the 5th EDF (€ 0.274M), be used to co-finance two airstrips on Rum Cay and Moores Island. The financing decision was taken on 1997. The Financing agreement was signed by GoB on January 28, 1998. Initially the financing agreement regarded also the Moores Island air field. Because of urgent repairs the works regarding the Moores Island air strip have been carried out by the GoB. Consequently it was agreed to dedicate the whole financing to the Rum Cay air strip. To that effect the DNAO sent a letter to the DCAO on 30 June 1999. The Commission agreed on 20 September 2000 to this proposal. Subsequently (December 2001) the extension of the Financing Agreement until December 2004 was agreed.

In November 2000 a tender was launched in order to select the Contractor. The offers were presented by the bidders on 29th of November 2000. The approval of the tender evaluation suffered several delays and no contract was awarded by September 2001.

The event of 11 September 2001 had a significantly negative impact on the Bahamian economy. The Government decided to put the project on hold consequently the tender was cancelled. A new tender to select the contractor was launched in September 2002 and the works contract was awarded in December 2002. The works were implemented during 2003.

CONTEXT AND OBJECTIVES:

The rehabilitation of the Rum Cay airstrip is one of the projects identified by the Government of the Bahamas aimed at facilitating air transportation in the archipelago in order to promote a more balanced and equitable distribution of economic growth. Rum Cay (60 inhabitants) has clear development potential by virtue of its central location in the archipelago, its diving possibilities, its sport fishing resources, its good potable ground water resources and its 'point of entry' potential for cruising boats. The works on the air field include new base course construction, resealing and drainage improvement. The project is designed, implemented and supervised by the Ministry of Public Works.

ACTIVITIES CARRIED OUT DURING 2003 AND RESULTS ACHIEVED:

During 2003 the works have been successfully implemented and the provisional acceptance was granted in November 2003 (completion certificate). The final account will be established in January 2004.